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ARIZONA CORPORATION COMMISSION

BRIAN C. McNEIL
Executive Director

Direct Line: (602) 542-4143
Fax: (602) 542-0765
E-mail: kmayes@azcc.gov

May 10, 2006

Mr. Alan J. Fohrer
Chief Executive Officer
Southern California Edison
2244 Walnut Grove Avenue
Rosemead, CA 91770

Mr. John R. Fielder
President
Southern California Edison
2244 Walnut Grove Avenue
Rosemead, CA 91770

Re: Proposed Devers-Palo Verde No. 2 (DPV2) Power Line; Docket No. L-00000A-06-0295-00130.

Dear Sirs:

I have reviewed Southern California Edison's (SCE) recent filing before the Arizona Power Plant and Line Siting Committee (Committee) proposing a new high voltage power line between the Palo Verde hub and California. Although I have not reached any conclusions in this case, the initial application raises several areas in which additional information would be beneficial for my full consideration of this matter.

As you know, pursuant to ARS § 40-360.07 the Commission is directed to "balance in the broad public interest, the need for an adequate, economical and reliable supply of electric power with the desire to minimize the effect thereof on the environment and ecology of this state." The plain language of the Line Siting statute mandates that the ACC consider the public interest in weighing whether to grant a CEC, and in particular the need for the proposed power line.

With this and other provisions of the Line Siting statute in mind, I would like your Company to provide answers as part of the record in this case to several questions in order to help me in my deliberations and to provide the Line Siting Committee with the fullest possible body of evidence upon which to make its recommendation to this Commission.¹

Consumer costs of proposed DPV2

¹ I am asking that the Line Siting Committee include in its recommendation to the Commission findings regarding the need for this line in Arizona.

First, an SCE report to the California Independent System Operator (CAISO) included in the DPV2 filing reveals that there is anticipated to be a wide disparity in benefits derived from this proposed power line by California and Arizona ratepayers. According to the filing, the proposed DPV2 would cost Arizona consumers more than \$231 million between 2009 and 2014.² This is of obvious concern to me as it appears that these are costs that may be directly shouldered by Arizona ratepayers through higher electric bills. By contrast, according to SCE estimates, the power line would result in net benefits for California ratepayers between 2009 and 2014 of \$967 million and net ratepayer and producer benefits of \$1.1 billion over the lifetime of the project.

With regard to the consumer impact report conducted by SCE, I would like the Company to extrapolate out through the lifetime (from 2009 until 2055) of the proposed line the estimated costs to Arizona consumers.³ Presumably, these ratepayer impacts would result from higher prices being charged to Arizona utilities by Palo Verde Hub generators as a result of the willingness of California utilities to pay prices that are lower than those they could receive in California, but higher than Arizona utilities currently pay. However, the SCE report to the CAISO is not entirely clear on this point and I would like the Company to provide its methodology and assumptions for arriving at these net costs.

Please also inform the Commission and the Line Siting Committee whether SCE's estimates of the impacts on Arizona ratepayers include the costs to Arizona utilities of having to replace power sent out of state over DPV2. In other words, do the estimates take into account the costs of building new power plants or power lines in order to meet local load demand that could have been met by the Palo Verde Hub?

Impact on Arizona's power supplies of proposed DPV2

According to SCE, the primary purpose behind the construction of the proposed DPV2 is to provide California utilities the capacity to import approximately 6,500 MW from the Arizona power market.⁴

I am concerned about the potential impact this exportation of power could have on our state's ability to provide for its indigenous – and rapidly growing – population.⁵ At the Commission's recent annual Summer Power Preparedness meeting, at least one utility suggested that by 2010, Arizona's

² According to Appendix G, SCE Report to CAISO, G-1 and G-2, DPV2 would result in negative Arizona consumer benefits in the amount of -\$25 million in 2009; -\$37 million in 2010; -\$39 million in 2011; -\$40 million in 2012; -\$45 million in 2013 and -\$45 million in 2014. When the producer benefits (the amount that merchant plants will gain as a result of being able to sell excess power into the California market) are added to these consumer losses as well as the transmission congestion revenue losses, the net negative impact for Arizona is -\$74 million between 2009 and 2014.

³ If the net ratepayer and producer benefits at the end of 2014 were held constant at -\$17 million per year over the remainder of the lifetime of the project, it would appear that the net lifetime benefits to Arizona ratepayers would be -\$754 million (-\$74 million from 2009 to 2014 and -\$697 million from 2014 through 2055).

⁴ See SCE Application for Certificate of Environmental Compatibility/Devers-Palo Verde No. 2 Transmission Line Project, pg. 4.

⁵ Arizona Public Service has reported that its retail load growth for 2005 and 2006 is three times the national average at more than 4 percent, and Tucson Electric Power has stated that its retail load growth is also growing at 2.5 percent. In some areas of the state, TEP's sister utilities are growing at a rate of 5 percent.

own utilities will need the excess power currently being generated out of the Palo Verde Hub, and without it would have to seek the supplies elsewhere.⁶

Because Arizona's long-term power requirements are implicated by this Application, under separate cover I am writing to Arizona's three largest electric utilities to ask them to provide an analysis for this docket on the question of when Arizona will "grow into" the power supplies at the Palo Verde Hub. In addition, I would like SCE to provide an analysis of the impact of DPV2 on Arizona's power supply needs over the lifetime of the power line, and provide the Commission and Line Siting Committee any studies or analyses the Company has already conducted on this matter. Specifically, when does SCE anticipate that Arizona will need the excess power being generated out of the Palo Verde Hub and what does SCE anticipate would happen if that power was not available to Arizona utilities?

Reliability/Power supplies directed from California into Arizona

SCE makes it clear that the purpose of the power line is to allow additional megawatts to flow from Arizona into California. The Application also states that the DPV2 line would enhance reliability regionally, but makes no mention of when power might flow counter-directionally, in other words, whether Arizona would under any circumstances receive power from California, or from the Northwest via California. Please describe for the Commission and the Committee any conditions envisioned by which Arizona utilities would actually receive power supplies over the DPV2 line from California or Northwestern generators.

Please also tell the Commission and Line Siting Committee whether Arizona utilities would have access to the potential new generation east of Devers, near Blythe, that is discussed in the Devers-Palo Verde No. 2 Cost-Effectiveness Report issued on April 7, 2004.⁷

Environmental impacts to Arizona resulting from DPV2

Apart from the direct environmental impacts associated with the siting of the proposed power line that are addressed in the Application, I would like the Line Siting Committee and the Commission to have an estimate by the parties of the potential environmental impacts from any additional power plants or power lines that could result from the creation of DPV2. According to the Application, SCE believes the power line itself could stimulate additional generating plants in Arizona, presumably to serve California utilities.⁸ And, as noted above, at least one utility has stated that alternative supplies of power would likely have to be developed by Arizona utilities in Arizona, or

⁶ See discussion between David Hutchens of Tucson Electric Power and Commissioner Gleason. Hutchens stated his belief that Arizona would likely need the excess Palo Verde hub power by the time the proposed PVD2 line is scheduled to be placed in service.

⁷ Cost-Effectiveness Report, Pg. 25.

⁸ See Devers-Palo Verde No. 2 Cost Effectiveness Report, April 7, 2004, pg. 2: "SCE assumed that the benefits of accessing Palo Verde generation in the southwest area will continue beyond 2012. This assumption is based on a belief that new generation in Arizona will continue to have economic advantages over new projects in California. These advantages include access to lower cost natural gas, less restrictive permitting, lower taxes, and lower labor rates. As long as these advantages exist, it is reasonable to expect that a continuing benefit will accrue from new generation sources in the Palo Verde area."

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power lines constructed to import power, if the Palo Verde Hub electricity is not available for use by Arizona utilities in 2010 and beyond due to the exportation of that power into California. Please tell the Line Siting Committee and the Commission whether any analyses have been done on the environmental impacts (from pollution, loss of water, or direct impacts to land) from the construction of any additional generation in Arizona that might be spurred by the proposed DPV2 line.

Estimated tax benefits from DPV2

A report conducted by Arizona economist Elliott Pollack on behalf of SCE for this Application states that DPV2 would have a sanguine impact on Arizona's tax base. According to Pollack, the project and its attendant construction would provide 488 jobs over two years, generating direct and induced economic impacts of more than \$83 million. Pollack also estimates that La Paz County will receive a \$1.25 million boost in property taxes in the first year, declining over time, and Maricopa County will receive \$835,000 in additional property taxes in the first year, also declining over time. However, Mr. Pollack does not go on to estimate the total tax base impact of the line. Please provide the Commission and the Line Siting Committee with an estimate of the tax benefits to the state of Arizona, La Paz County, and Maricopa County resulting from DPV2 over the lifetime of the project.

Thank you for your attention to these questions. As indicated above, your timely docketed responses will aid me in my full consideration of this matter.

Sincerely,



Kris Mayes
Commissioner

Cc: Chairman Jeff Hatch-Miller
Commissioner William A. Mundell
Commissioner Marc Spitzer
Commissioner Mike Gleason
Laurie Woodall, Chairman, Arizona Power Plant and Line Siting Committee
Ernest Johnson
Brian McNeil
Heather Murphy
Docket